

NATIONAL PETROLEUM COUNCIL

105th Meeting

Thursday, December 11, 1997

ANA Hotel

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Washington, D.C.

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(703) 471-9840

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HON. PATRICIA F. GODLEY, Assistant Secretary for Fossil
Fuels, DOE

COLLIS CHANDLER, Chairman, Nominations Committee, NPC

MARSHALL NICHOLS, Executive Director, NPC

JIM NOKES, Committee on Product Supply, NPC

VICTOR G. BEGHINI, Chairman, Finance Committee, NPC

HON. ELIZABETH ANNE MOLER, Deputy Secretary of Energy

HON. FEDERICO F. PENA, Secretary of Energy and Government
Cochair, NPC

TRANSCRIPTION SERVICES**(703) 471-9840****AGENDA****PAGE**

Opening remarks Joe B. Foster, Chair	4
Remarks of the Hon. Federico F. Pena, Secretary of Energy	7
Status Report, NPC Committee on Product Supply Jim W. Nokes	43
Monograph on NPC's First 50 Years Dr. Joseph A. Pratt, University of Houston	52
Administrative Matters	
Report of NPC Cochairs' Coordinating Committee Joe B. Foster, Cochair	79
Report of NPC Finance Committee Victor G. Beghini, Chair	84
Report of NPC Nominating Committee Collis P. Chandler, Junior., Chair	87
Adjournment	91

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P R O C E E D I N G S [9:20 a.m.]

CHAIRMAN FOSTER: Good morning.

I think we have a very worthwhile meeting scheduled today. This is the 105th Meeting of the National Petroleum Council, and we appreciate your taking the time and effort to be here, and we look forward to your contributions not only at this meeting but in the year to follow.

As is our custom, the check-in outside the room will serve as our official attendance record. If there is no objection, I will dispense with the calling of the roll.

Let me now introduce to you the people seated here at the head table. On my far right is Pat Godley, DOE's Assistant Secretary for Fossil Fuels. Next to Pat is Collis Chandler, who is the Chairman of the Nominations Committee of the National Petroleum Council. On my far left is Marshall Nichols, the Executive Director of the Council. Next to Marshall is Jim Nokes, who represents today Archie Dunham, who is the Chair of the NPC Committee on Product Supply. Then next to Jim is Vic Beghini, who is the Chairman of the Finance Committee of NPC who will give you a report a bit later. And then next to Vic is

Betsy Moler, the Deputy Secretary of Energy. And to my right here is Secretary of Energy Federico Pena.

I know that a number of you have been acquainted with Secretary Pena. Since he has been the Secretary at the beginning of this year, he has been at the OTC in Houston and I've heard a number of you say that you've met him there. Some of you met him at the Rocky Mountain Oil and Gas Association meeting in Denver, and then several of you told me that you have visited with Secretary Pena on his trips to either the former Soviet Union or to Venezuela and other parts in South America.

So he's been out and about, and become acquainted with many of you and with many of the issues that exist in our industry during his tenure as Secretary of Energy, and we also had an opportunity among what's called the Cochairs' Coordinating Committee for a group of 14 or 15 of us who are members of the Council to meet with the Secretary back in April. He was very helpful to us in outlining some issues that were of interest to him, and gave us the opportunity to express to him things that we thought might be worthy of study and consideration by him.

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and by the Council; and you'll hear some more about the results of that process from him this morning.

This, however, is the first time that Secretary Pena has addressed the Council as a whole, and we're very pleased to have him with us today, and I'll now ask him to make some comments to you.

Mr. Secretary.

[Applause]

FEDERICO F. PENA

Secretary of Energy

SECRETARY PENA: Thank you very much, Joe. Good morning to all of you. Let me thank you for being here this morning. Joe is referring to the fact that I've been out and about, so some of you know that yesterday I was again out and about in New York with the President, and got in a bit late last night, so my apologizes for being a bit late this morning. It seems that I was having transportation problems both in the air and on the ground. I guess I'd better talk to the Secretary of Transportation.

(Laughter)

Before I present my full remarks, let me on a personal and professional basis say thank you to Joe Foster for all of the close coordination we've had, at least since I've been Secretary. And Joe, I very much appreciate your guidance and your counsel and your hard work, and so please give Joe a round of applause. He's done a great job.

[Applause]

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I am very pleased to be here today to talk to you about the vital role that your industry, the oil and gas industry, has had and will have in building the foundation for what is arguably the strongest economy the world has ever known.

We are as you know in the midst of one of the greatest peacetime economic expansions in our nation's history. It's been a privilege for all of us in the administration to have worked with all of you in implementing policies, whether they're reducing the federal deficit, encouraging small business formation, opening up international markets -- all of this has paved the way for this expansion.

You've all seen the statistics, our lowest unemployment rate in 24 years, more than 13 million jobs created, hundreds of thousands of new businesses started since 1993, low interest rates, a balanced budget by 2002, a reduced deficit in ways that nobody thought possible, a pretty healthy stock market even though it has a few interesting days.

But the fact is that we have now an unprecedented flood of good news, and I believe new hope

for all Americans. The oil and natural gas industry has helped fuel this incredible economic expansion by supplying reliable and affordable energy to consumers and businesses, making our country globally competitive, and creating thousands of jobs.

In 1996, for example, U.S. proven reserves of natural gas increased for the third year in a row, and crude oil reserve additions replaced 85 percent of 1996 oil production. And the per barrel cost of extracting oil and gas has fallen sharply in this decade, which I think helps explain why the overall profitability of the oil and gas industry in 1996 was at its highest level in 15 years.

Everyone, all of you in this room, deserve our thanks for making such enormous contributions to our nation's economic well-being.

Let me also welcome the new members of the National Petroleum Council. I understand that we just filled a number of those new positions.

Could some of the new members please stand so at least we can recognize you and thank you for your willingness to serve the country?

[New members standing.]

Give them a round of applause.

[Applause]

Let me talk about three things this morning.

First, to give you a little more specificity about some of my priorities; secondly, to talk about how those priorities intersect and affect the oil and gas industry, particularly as we develop diverse supplies of energy, and I want to also talk about how this involves and affects global climate change, given yesterday's announcement; and thirdly, the role that the National Petroleum Council can play in achieving these priorities. Let me start with my own.

I had an opportunity, as Joe mentioned, to meet with the National Petroleum Council Cochairs' Coordinating Committee this spring and yesterday afternoon. And I had an opportunity to meet with a number of you at events both in Houston and in Denver; and as Joe said, I very much appreciate your representatives and some of you whom I've met with personally in places like Mexico or South America or Russia and during my unprecedented five-country swing through the Caspian area.

Let me amplify the philosophy that underpins many decisions that we make. That philosophy has three elements. First, I strongly believe in the power of free markets to create the solutions that will make our nation even stronger than it is today, whether it is electric utility restructuring which we're still hard at work at, developing new technologies, which the President has instructed us to put even more emphasis on, or finding solutions to global climate change.

I believe that we must rely on market forces to guide our choices.

Secondly, whenever we in government are developing policies and initiatives, we must consult with industry and consumers. That is why the National Petroleum Council is so important and why I am counting on you to help us address the very complex national challenges that we face ensuring our energy security, preserving our environment, sustaining our economic growth just to name a few.

And thirdly and perhaps most importantly, everything we do must be tempered by the knowledge that we are stewards of a great national trust. The decisions we

make today will affect the dreams, the hopes and the aspirations of future generations of Americans. We owe it to them to make wise decisions today that will affect their lives tomorrow.

I believe that the National Petroleum Council shares these values. Let me quote a passage from the 1995 NPC report which was entitled: Future Issues, A View of U.S. Oil and Natural Gas to 2020.

The mission of the U.S. oil and gas industry is to provide reliable and affordable energy supplies in a manner reflecting shared societal concerns for environment, health and safety. The challenge to the industry over the next 25 years is to achieve this mission within a rapidly changing, increasingly global, highly competitive landscape.

Close quote.

We need this kind of visionary thinking to enhance our status as the world power as we enter the 21st Century. We must embrace the defining challenges of our age and not shy away from it. That is why I want to number one stretch the frontiers of energy production and

use to fuel our continued economic expansion through abundant supplies of clean and affordable energy; and secondly, rely on America's entrepreneurial spirit and market genius to generate the technological solutions that will reduce the threat posed by global climate change and other environmental challenges.

These priorities will require an extraordinary national effort, in part because of the long time frames that are involved. Improving the way that we use and produce energy, and meeting the challenge of global climate change, for example, will take time to achieve. And that is why your advice and your guidance is so critical to our nation's future. I look forward to working with you as we address these and other challenges.

There is no doubt that we will remain a petroleum-based economy well into the 21st century, and that is where much of our national focus should be placed. The Energy Information Administration's 1998 Annual Energy Outlook will not be released until next week, but I can tell you that under any conceivable scenario, that EIA forecast, oil and natural gas, will remain a significant

part of our energy mix through 2020. That's as far as the forecast goes these days.

Oil consumption, which was 18.4 million barrels per day in 1996 will increase by 32 percent by 2020, in EIA's reference case, to 24.4 million barrels. Natural gas consumption is projected to grow by 46 percent, or to 32.2 trillion cubic feet per year, compared to our current consumption of 22 trillion cubic feet.

As the Department of Energy and within the Clinton administration, we've been working to ensure that our nation's supply of affordable oil and natural gas is not interrupted. This has been accomplished through a number of policy and technology initiatives.

One example is how we are developing our offshore oil and gas reserves. The passage of the Deep Water Royalty Relief Act demonstrates that industry and government can develop common sense solutions that spur oil and gas production. The Royalty Relief Act will help slow the growth of our dependence on foreign oil by unlocking an estimated 15 billion barrels of oil in the Central and Western Gulf of Mexico. And based on the

recent flurry of leasing activities, there is no question that the Royalty Relief Act, combined with the deployment of new technology, has given a strong push to deep water development.

In 1994 and '95, the last years before the Act, there were 347 bids for leases at depths greater than 40 meters, that totaled \$103 million. But in 1996-97, the first years after the Act, there were 2,077 bids that totaled \$1.451 billion.

I was talking to my dad the other night, who lives in Brownsville, Texas; and he tells me that the construction of the offshore rigs there is booming, and that there are lots of people very excited about the work down in that part of the state.

In combination with deep water royalty relief, we supported and helped pass a law allowing the export of crude oil from Alaska's North Slope. This has helped maintain Alaska's contribution to our daily oil requirement, and allowed California producers to increase oil production.

More recently, the Department is working closely with the Bureau of Land Management to provide royalty

relief for marginal oil and natural gas wells on federal lands. We supported the Bureau as it evaluated royalty reductions for stripper wells, and heavy oil. And we have participated in the Green River Advisory Committee's effort to streamline the environmental assessment process.

One tangible result of our efforts to strengthen our domestic energy base was the historic announcement of the sale and privatization of the Elk Hills Petroleum Reserve for \$3.65 billion to Occidental Petroleum. I think Pat Godley is somewhere here in the room; Pat, over to my right. Congratulations to you, Pat. A number of you have indicated you want to hire Pat very quickly to help with some of your negotiations.

Pat, congratulations for a great job.

Let me also reaffirm our support for the reauthorization of the Energy Policy and Conservation Act, or EPCA. EPCA provides our authority for the Strategic Petroleum Reserve and contains protections the oil and gas industry needs when advising the international energy agency. Unfortunately, Congress adjourned without acting on EPCA. I believe it makes no sense for the United States to allow this major piece of legislation to remain

expired at any time; but much less while the President is having to deal with Iraq.

These are just a few examples of this administration's concerted efforts working with you to increase domestic production and to provide energy security to our nation's consumers. In addition, this administration has been focused on efforts to promote trade and investment opportunities for U.S. companies in emerging energy markets.

Since becoming secretary in March, I have gone, as you know, to the Caspian Sea region, to Latin America and to Russia. Let me review some of those successes. I was present in November when the President of Azerbaijan turned the spigot on a new supply of oil from the Caspian Sea. And some of you may know that there's a traditional ceremony where you put your hand in the bucket and dab your face with oil; and I did that. I understand in past years they have literally dobbed their entire bodies with oil. But it was a joyful occasion, as you can sense.

I also had a number of meetings with the Presidents of Turkey, Azerbaijan, Georgia, Kazakhstan, and Turkmenistan. We succeeded in getting support for the

trans-Caspian Baku-Ceyhan pipelines that are on east-west access that I think will help bring this oil to western markets.

And U.S. companies, many of you in this room, are signing multi-billion dollar deals that will pump this oil and natural gas out of the ground.

I was also in Venezuela recently with President Clinton. We emphasized many opportunities are available to U.S. energy companies there. In Venezuela's energy sector alone, we see \$20 billion in investment opportunities during the next twenty years. I'll be participating in an energy ministerial with other ministers throughout the hemisphere in January, in Caracas, Venezuela, that will build on the large body of work this administration has already done in Latin America.

U.S. production and service companies are succeeding in Latin America in part because we are opening doors, and knocking down some trade barriers.

In Russia and the other newly independent states, our goals are to promote democracy, to prevent proliferation of materials that might be used in weapons

of mass destruction, and to create business opportunities for U.S. energy companies.

In my conversations with Russian leaders, I've emphasized that they need to develop sensible, clear and fair tax and investment structures that give U.S. businesses an assurance that their investments will in fact pay off. I've raised these issues directly. During my trips to Russia, with Prime Minister Chernomyrdin, Deputy Prime Minister Nemtsov and Energy Minister Kiriyenko. We are pleased, by the way, about some recent progress that was made as respects three joint ventures in Russia, which resulted from the discussions that we had during the last Gore-Chernomyrdin meeting in Moscow a few months ago.

Some time ago I mentioned that we wanted to embark on the development of a comprehensive national energy strategy. Our ability to develop diversified supplies of oil and gas is important to our national security and our quality of life. That is why my team at the Department of Energy has developed a framework for a comprehensive national energy strategy. We have been hard at work at this for the last several months.

And in keeping with my personal philosophy, the strategy should be market-driven, emphasize consultation with industry and consumers, and create solutions that will provide affordable, secure and clean supplies of energy for our nation.

Some of the key elements of our energy strategy include reversing the decline in domestic oil production, maintaining the increase in gas production, being prepared for oil supply disruptions and growing the use of natural gas among many, many others.

And in keeping with the Department's role as a science and technology agency, we should be investing in more research and development in the energy industry. We are now in the process, that I shared with some of you the other day, of sharing the comprehensive energy strategy with other departments in the administration and with the National Economic Council; and when we work through that process, we will then be scheduling hearings early next year, and as we go through this process, we very much want and need your advice on this very important strategic document.

Some of you may be familiar with the recently-released report of the President's own Committee of Advisers on Science and Technology. This is a very important report because it is a ringing endorsement of the need for a comprehensive national energy strategy, and a call to arms. Let me quote one of the passages from that report:

For reasons of economy, environment, security and stature as a world power, the United States must maintain its leadership in the science and technology of energy supply and use.

But the report also noted that funding for federal energy science and technology efforts, quote:

taken as a whole, are not commensurate in scope and scale with the energy challenges and opportunities the 21st century will present.

Close quote.

In other words, energy science and technology development is critical to our nation's security and well-being, but we are not investing enough for our future. During the next 20 years, I believe we're going to need to invest in and embrace new technologies and ideas and

ideas. So we very much welcome this report from the President's PCAST committee, and I know the President has reviewed it already, and we need to get further support for that.

Let me talk this morning about global climate change. I know it's very much on your mind. As you know, market-based solutions arrived at in consultation with industry that meets the needs of future generations of Americans has been part of and has formed the basis of the President's climate change strategy.

As you know, the President's strategy has three stages: The first stage of this strategy focuses on our investments in research and development. We will produce new technologies and provide \$5 billion in tax cuts and other investments to encourage businesses to either invest in clean technologies -- and we ourselves in the federal government will reduce our own energy use since we are the largest users of energy in the United States. And we will work with industries to achieve greenhouse gas reduction goals. And they'll get appropriate credit for this effort. That's all in stage 1.

In stage 2, which begins around 2004, we will call for an evaluation of the state of our economy and an update on the science on global warming. We will develop international procedures for businesses to trade emissions permits and to invest in clean technologies in developing countries.

Stage 3 involves meeting binding emission targets through the implementation of domestic and international emissions trading systems. Our systems for trading emissions would be developed like the successful permit trading system in the U.S. for sulphur dioxide.

As you know, the Kyoto negotiations concluded yesterday and represent an enormous and important challenge to the energy industry and to the nations of the world that power their economies with fossil fuels. Let me review that agreement that was reached.

The negotiators in Kyoto clearly produced an agreement that meets one of the President's key objectives: international efforts to reduce emissions that will be market-based. A framework for both international trading and for joint implementation was established. We will pursue reductions where they are

most cost-effective to obtain, and we will let the market decide where, when and how reductions will occur.

Obviously we would have preferred stronger language to ensure what the President asked for in terms of meaningful participation by developing countries. We will continue to work, as the President said yesterday, to see that these countries do their share by growing their economies with greater energy efficiency than that which characterized our own industrial revolution.

The time frame adopted by the nations in Kyoto was also the President's. He concluded that earlier timetables that had been suggested by others were neither realistic nor achievable without doing real economic harm.

Our negotiators succeeded in winning agreement to this proposed time period of 2008 to 2012 for reaching the desired emission reductions. While the U.S. target of 7 percent below 1990 emissions levels is several percentage points more aggressive than the President's original proposal, I believe the rapid pace of technological change combined with international trading and joint implementation initiatives constitutes the basics for a successful formula for achieving significant

emission reductions. All three of those, I think, can play a very strategic role here.

Now in the months ahead we're going to have a lot of time to discuss the merits of this agreement. We all of course want to read the fine print; and there's lots of fine print here. But regardless of the immediate fate of this agreement, I believe we've embarked on an irreversible course towards organizing economic growth around the principles of free markets and the wise use of our energy.

Your industry, the oil and gas industry must be, and I ask for you to continue to be a partner in this journey; not only because you're in the fossil fuels business, but because your companies are world class competitors. Because you understand the importance of continuance technological improvement, and because you understand the emerging globalization of the world's economy.

All of those attributes make the oil and gas industry an indispensable partner in this historic endeavor. I know that we will need your advice and your

guidance as we move forward to address this very important challenge.

Let me now shift to some future challenges. That is why I want to close my remarks with a particular challenge to the National Petroleum Council.

The first challenge arises from the fact that our nation is counting on the oil and gas industry to deliver more natural gas to businesses and consumers than ever before. Electricity restructuring, global climate change, our aging inventory of power plants and other factors will make it essential that affordable supplies of gas be available and are delivered as demand rises.

This increasing demand for natural gas is the reason why I will soon be sending a letter to Joe Foster requesting that the National Petroleum Council update its landmark 1992 natural gas study. Study areas could include projected growth and demand for gas, particularly in light of global climate change and electric utility restructuring; critical technologies and infrastructure investment needed to make this growth in demand and to prevent potential bottlenecks in the gas supply and delivery system; and also the potential role of imports.

You have my commitment that this study will be put to good use as we develop a comprehensive national energy strategy and other policy options at the Department of Energy. The Energy Information Agency, for example, still relies on the 1992 study and the assumptions that it contains when developing its energy forecast. And as you know, EIA data forms the foundation for many industry decisions, and decisions that we ourselves make at the Department of Energy.

The second challenge is a study on the future demand for refined products and alternative fuels. You and I know that anticipated changes in alternative fuels policies are creating concerns among refiners. I would ask that the NPC study future fuel use and demand that will take into account these changing policies and the needs of consumers. Again, we'll use this study very wisely. The 1993 NPC study which was entitled, "U.S. Petroleum Refining, Meeting Requirements for Cleaner Fuels and Refineries" was a major source of understanding and information about economic factors such as refiner investment and costs of production, and the implications

of regulatory options. But we must rethink those conclusions.

Let me close my comments this morning by once again acknowledging the difficulty of trying to predict the future. In fact, we all know that most of our energy price and supply and demand predictions have been somewhat off the mark, at least in the past. If what we had predicted in 1977 had become true, oil would be selling for about \$80 a barrel, and everyone in this room would be richer than Bill Gates.

But let me make at least one prediction: If we agree to work together to solve the national challenges that I've discussed today, the world and future generations of Americans will in fact inherit a safer, more secure, and much more prosperous nation.

This is truly a goal worthy of our great nation and of a great industry like the oil and gas industry, and I ask for your commitment and help.

Thank you all very much.

[Applause]

CHAIRMAN FOSTER: The Secretary has agreed to take questions from the floor. So if any members of the

Council have any questions that they want to raise with the Secretary at this point, now is your opportunity to do so.

Yes, sir.

MR. BILLINGS: Mr. Secretary, I'm Joe Billings with ENRON. I appreciate your speech today. You certainly touched on all the things that are of interest to us, like restructuring, cleaner fuels, renewable fuels. I compliment you and your team for putting it all together.

How soon do you think you'll be able to start moving on some of these things as our second session of the 105th Congress comes in?

SECRETARY PENA: That's a very good question. We have been, quote "moving" on these things for quite a while. Let me talk about electric restructuring. As you know, actually this effort started before I became Secretary of Energy. The Department had been hard at work for almost a year; and the Department has in a sense completed our work on an electric restructuring proposal.

We have now, for the last several months, been having interdepartmental meetings with the National

Economic Council at the White House to share this proposal with other departments. And with Betsy's hard work, we have reached consensus on many, many items in that proposal.

So our goal is to try to wrap that up as quickly as possible, and obviously to have an impact on next year's Congress. The President, when he announced his global climate change strategy sometime ago as you recall, said that this would be one of the components of a nine point strategy to reduce greenhouse gas emissions and to bring down some costs and to think through more stable energy in the future.

So it's a high priority of ours; we want to get it wrapped up as quickly as possible; we've been busy dealing with a couple of other significant issues; but our goal is to have it done quickly so we can in fact impact the next Congress and hopefully add some momentum to some of the discussions and some of the proposals that have been presented to the Congress in the past session.

CHAIRMAN FOSTER: Other questions?

SECRETARY PENA: I think you had three parts to your question, as I recall, that was just one part.

MR. BILLINGS: Well, I think you hit the first rapt first. How do you think this is going to be presented or when presented to the Congress?

SECRETARY PENA: Again, our goal is to do it as early next year as possible, because we think that the sooner we do it, the more impact we'll have on the legislation and the proposal.

And let me say, while we're doing this, we've been traveling throughout the country, continuing to get advice from the states that have already gone through this. I was in California last week, met with a number of companies there who are very enthused about the January 1 start-up date for their deregulated environment.

So we're working very closely with states and others to learn from their experiences and try to incorporate those as best we can into this proposal. So we'll keep pushing.

CHAIRMAN FOSTER: Are there others?

AUDIENCE: You very effectively called attention to the importance of the Caspian Sea and your visit, and the potential it has for American companies. Is this part

of a new U.S. policy to promote the diversification of foreign supply sources?

SECRETARY PENA: Yes, that's part of it.

Did everyone hear the question? The question was, was our work and strategy in the Caspian area part of a strategy to diversify world supplies of oil, and to some extent gas?

The answer is Yes. That is one of the underpinnings of our work there. We have said for some time now that we think that part of the answer to having more security is to have diversification of oil throughout the world so that we are not as dependent in any one particular region of the world as we have been in the past.

So we think that part of the world is part of that solution, as is Venezuela, as is Mexico, as are other parts of the world; and so that's why we've been very hard at work there.

Let me also say that there is also a national security and foreign policy issue that is involved here. As you know, we have had great concern and object to, and also given the legislation that the Congress passed some

years ago on sanctions to energy investments in Iran. So one of the purposes of my trip there was to encourage the leaders of the five or six countries to think about this trans-Caspian East-West pipeline strategy, which avoids Iran.

And we have received strong support for that, we have much work to do there. A number of you are very much engaged in that, I've been talking to you about that, and let me say that we're going to need more of your guidance in that area because fundamentally the decisions that will be made there will be market-based. Each of those alternative pipelines have to be economically viable. The federal government is not going to be investing in those pipelines; this is going to be a market-driven effort.

So we need more of your judgment and advice as we work through those very difficult and complicated issues. So we'll continue to work with those countries; but equally importantly, and I've encouraged them to form working groups among themselves and to also form working groups with the companies that are very much interested in investment in that area, and I think that's beginning to happen and we're very pleased about that.

CHAIRMAN FOSTER: Yes.

MR. ROSENBERG: Mr. Secretary, Henry Rosenberg of Crown Central Petroleum Corporation.

I'm very pleased to hear what you say here this morning, but I hope that we will keep in context here, the relationship of EPA to the very subjects that we go from here on.

SECRETARY PENA: I agree. And by the way, one of the issues that has come up as respects, for example, the impact on refineries and in doing this, the study, assuming we embark on it is to involve the EPA, and perhaps some other departments.

So that there is a fuller understanding of some of these long term consequences, perhaps unintended impacts that we're beginning to see. We're very concerned about that. So I think part of the effort here is to bring all these departments together in a better way, to think more comprehensively about how we're going to move on some of these strategies. So we're very -- we're in agreement with your suggestion.

MR. MURPHY: Mr. Secretary, my name is Mark Murphy, I'm President of Strata Production, an independent in Mexico.

First off, I want to thank you for your role as an advocate for our industry. You've quoted a couple things about royalty reduction; I know that you had some questions and then some follow-up to the Lewis and Clark area. To me, that's one of the most important things that you can do as Secretary of Energy, and certainly your Department.

I guess my main question is that you've talked a little bit about the role of new technology, and the development of new technology as being a priority with the administration.

Can you talk a little bit about how that is translating into budget priorities now? I hear there is some pressure from OMB and elsewhere, and maybe you can give us an update on that, and also tell us what we can do to support you.

SECRETARY PENA: Be happy to, Mark.

First of all, the President has been very clear about his priority on technology. You might recall a

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conference we had at Georgetown University where we had a whole session on technology, and he was very invigorated by that discussion.

And that is one of the reasons he announced that he wanted to direct \$5 billion in investment, in R&D. And when you have heard him talk about challenges of the future, he has always said very strongly that "we need to do more on technology."

The \$5 billion that we're talking about will be divided -- and we don't have the division worked out yet -- some in terms of tax relief to incentivize more investment on the part of the private sector to move into cleaner technologies. But we also need to have direct investment in just new R&D. So in that vein, we are working very closely with our National Laboratories -- and they're very excited about this; I've challenged 11 of our laboratories to put together a very strong, technology-driven strategy so we can harness the terrific talent and the resources of our laboratories in a much more effective way than we've done in the past. And working with all of you to decide what are going to be the priorities that we need to invest in.

So we're bringing a lot to the table, but this is a very high priority.

In reference to the OMB comment, the \$5 billion will be over five year period; and all I can tell you is that we're still in the midst of having discussions with OMB and the White House about this. But this is very important; we had a meeting at the White House recently among all the departments in the government to review all of our R&D portfolios, to look at the government as a whole and to ask the question, "Are we doing enough?" And there is some concern, as you saw in the PCAST report, that we are not, particularly in the area of energy R&D, doing enough in terms of investments compared to other countries. And particularly concerned with some of the challenges we're going to be experiencing in the future, and a concern that at least in some areas of the private sector, some areas of the private sector, we've seen a decrease in some R&D investment on the part of some elements of the economy. So we've got to be very sensitive to that, and that is why this is a very high priority of the President.

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So stay tuned, we hope to move that agenda even more.

CHAIRMAN FOSTER: Are there other questions for the Secretary?

Hearing none, do you have any more comments?

SECRETARY PENA: Joe, let me just conclude my comments by again thanking you all very much for your service to our country. Your work is very important. I've outlined a couple of additional bodies of work that we can work on together.

This is clearly a very exciting and challenging time, and we're going to need to work very, very closely together. I simply want to assure all of you that all of us in the Department of Energy look forward to continuing to have that very good relationship with you.

You know, we've faced a number of challenges as a country in the past, and there have been times when there have been doubts about our ability to do it. But one thing that makes our country unique is the creative genius and the "can-do" attitude that we have seen so often among industry leaders and citizens alike.

So I certainly share that attitude and look forward to working with you in the future. And again to the new members, thank you very much for agreeing to serve on this very important council.

Thank you all very much.

[Applause]

CHAIRMAN FOSTER: Thank you, Mr. Secretary. We appreciate your taking the time and we appreciate the message you delivered. And I will just simply tell you that having been on the National Petroleum Council for a number of years, that you can count on the resources and the dedication being put to the request that you make of us; and I think you receive very objective advice; and we appreciate the opportunity.

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The next item on the agenda deals with the Petroleum Product study. A copy of the Secretary's letter requesting that study is in the packet that is on your desk. The Agenda Committee, which is chaired by Phil Carroll of Shell, has reviewed the request, decided it is proper and advisable for the Council's consideration.

Pursuant to Section 7.1 of the Council's article of organization, I accepted the agenda committee's report, and faithful recommendation, and with the advice of the Appointment Committee and approval of Secretary Pena, I appointed the NPC Committee on Product Supply, Archie Dunham, Conoco's chief executive has kindly agreed to chair this study committee. With Jim Nokes, also of Conoco, to be the chairman of the subcommittee. And Jim Nokes is here today to update us on this study's status.

Let me ask him to come to the podium and speak at this time.

JIM W. NOKES

NPC Committee on Product Supply

MR. NOKES: Thank you, Mr. Chairman, Secretary Pena, ladies and gentlemen. Archie asked me this morning to express his regrets for not being able to be here today; and what my task is is to give you as quick an overview of the study request, product supply, and of our organizational plans to execute that study.

As Chairman Foster just noted, by letter dated September 16th, which you have in your package, Secretary Pena requested the NPC to undertake a new study on the dynamics of the us- petroleum product inventories that would update parts of the 1989 report.

And I might add, Secretary Pena, I think that the work really does align with your three personal strategies; the free markets, consultation with business and being stewards of this nation. I think that clearly we can be of help and assistance there.

But specifically, the Secretary requested the Council to address the following issues; and I'll run through these.

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First, what are the factors behind the long-term decline in product inventories, and is this trend likely to continue over the next few years?

Second, were the inventory levels of 1996 an anomaly or a steepening in this long term decline?

Third, in the context of these long term trends, are the minimum operating levels still a useful concept for the Department to use as a benchmark or indicator of potential future problem with supplies and prices?

Fourth, can the NPC define such levels of inventories that if not maintained would cause supply problems, and how much do such levels compare to those identified in the 1989 study on the minimum observed inventories now used by the EIA.

And last, in the context of these apparent permanent lower inventory levels, will capacity limitations in the industry, coupled with demand growth particularly for middle distillates diminish the industry's ability to respond to dynamic conditions? Will larger price swings become a more frequent and necessary element of market balancing?

So that's kind of the summary of the study that we'll be executing. Now you'll find in your packages before you this morning a copy of the Secretary's complete request, and the roster of the Committee on Product Supply is also in that packet.

Now by way of background, the principal elements of this request on the dynamics of petroleum industries, they were initially outlined in a letter from DOE and were discussed in April by the NPC Cochairs' Coordinating Committee.

Subsequently, staff from the Department, several Council members' companies and the NPC further developed the potential request. The Secretary's September 16th letter is consistent with those suggestions, as you just heard, and has been approved by the NPC Agenda Committee.

Now as everyone in this room well knows, industry in recent years has been significantly reengineering itself, including its inventory, storage, distribution and marketing practices. The reengineering benefits consumers by lowering costs, but has also raised

the question of whether it has introduced a higher level of price volatility.

The number of issues and market events during the past year and a half have really prompted DOE's interest in NPC's advice; and those include uncertainties in world crude oil supply, gasoline tightness and price volatility in the spring of 1996, and last fall's concerns regarding heating oil supplies and prices.

So various aspects of petroleum supply capability really have been addressed in several recent NPC reports; three in the past in 1993, we had the U.S. Petroleum Refining study which addressed the requirements for cleaner fuels and refineries. In 1991, the short term petroleum outlook; it was an examination of issues and projections. And then in 1989, the study on petroleum storage and transportation.

Now the five-volume 1989 report was really the last time the NPC comprehensively addressed this product supply topic; and that report actually provided detailed data and analyses on U.S. oil and gas inventories and storage and transportation capacities as well. The report provided the only publicly available estimates of minimum

operating inventories for crude oil and major products. But due to changes in product specifications and inventory practices, these estimates are no longer really valid.

Now what we'll actually address, I think, is how the supply, storage and distribution system operates, both in normal times and during periods of actual and hypothetical stress.

Our current study is very much in its initial organization stages, with the Committee on Product Supply just being established, and charged with preparing the proposed response to Secretary Pena's request. It will be up to the committee to make the final decisions on scope, organization, and the timetable for the study effort. However, let me give you some of our early thinking on the study areas.

The Secretary's request for the study of the factors behind the long term decline in product inventories and the industry's ability to respond to long term dynamic conditions, those will likely be addressed by examining the broad forces that drive product supply, including an examination of how the petroleum product supply system works.

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Energy markets in the U.S. and around the world are constantly changing, and certainly have become much more interrelated; and it's really expected that this study will have a much more global focus than past studies, and will be more concerned with how markets operate than with physical systems.

Much like the system dynamics in the 1989 report, this study will look at a specific past event and hypothetical future stresses upon the system, with the goal of providing generalized information, usable in a wide variety of unforeseen circumstances.

Now it is envisioned that the new study will draw heavily on government and other publicly-available data sources; the study will rely less on data collection than many of the past NPC studies, and will really rely more heavily on the real added value in any NPC study, and that's the collective wisdom and experience of the study participant.

At this point the organization is, as we see, is necessary to respond to the study request, is a committee of the NPC members; they'll be assisted by a coordinating subcommittee that I'll be a part of.

The subcommittee, we'd be charged with conducting the study analysis and preparing a draft report for the committee. Now the makeup of the subcommittee will involve senior supply department personnel, amongst others. And a number of you have already received requests in the last few days for representatives from your companies to serve on the study's coordinating subcommittee.

Archie and I hope you'll find, and respond favorably to our request for support because in large part, the quality of this study is really a function of the personnel that we commit to execute the plan.

In closing I would like to note that while the timetable for our study will be dependent upon the committee's decisions on scope issues, we certainly expect it to be completed during the upcoming year. A proposed final report will be submitted to the Council's consideration and action at its next meeting.

Mr. Chairman, that concludes my remarks. I'd be happy to take any questions from the membership, if there are any.

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CHAIRMAN FOSTER: Are there questions for Jim?
Comments on the study?

Okay. Thank you very much.

MR. NOKES: Thank you.

CHAIRMAN FOSTER: Okay, the next item has to do with a report on the NPC history. You might recall that last year the National Petroleum Council celebrated its 50th anniversary. Joe Pratt, who is the Cullen Professor of Business and History at the University of Houston, agreed to review the record of the Council's first 50 years of existence and service, and to prepare a monograph that will both preserve the record and commemorate a half century of service and of government-industry cooperation.

Joe has done histories of a number of business corporations; is very good in this field, and he's going to at this point tell you about his work to date.

Joe?

Excuse me, Joe. The Secretary needs to depart because of a schedule again, but thanks again.

[Applause]

JOSEPH A. PRATT, Professor

University of Houston

JOE PRATT: As Joe remarked, this study grew out of Daniel Yergin's excellent 50th anniversary speech last summer. We, after thinking about reading the speech, thinking about the reports themselves more than anything.

The National Petroleum Council is a very interesting organization. We knew that it's unique among advisory councils; self-financing, independent, reaching down in the industry. I didn't quite understand the value myself. I had used the reports for all kind of different audit-related research; didn't quite understand the value until we actually read the 200 or so reports that the Council has written, and that's been my job for the last year. More than 200 reports, with the assistance of Bill Becker from George Washington University, and Mack McLanahan from the University of Maryland.

We've gone through the reports and tried to find patterns. As a historian, it makes me feel right and good today when I read this priority list that was on the table for all of us this morning; and I understand that these reports grow right out of the Council's history, and I

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really feel privileged to come to you today and explain or remind you, some of you've lived through much of this history and helped me reconstruct it; some of you are fairly new, and I hope I can help you to understand the history that you're joining when you join the Council; but it is a privilege to talk to you some about your own history. It's not something that most of you get to do, to look through the 200 reports; I'm not sure most of you would want to do it -- but it has been an interesting experience.

Fifty years, I think we can all say from our own personal lives, many of us in this room from personal experience, fifty years is a long time. Now in your personal life, if that takes you from a young married to a parent to a grandparent and maybe even a great-grandparent. In your professional life it will take you from a eager young employee moving into a company, two or three promotions, ten or twelve moves around the country if you're with a major oil company; position of authority; retirement party. Fifty years is about all we get to work in most of our lives.

In the life of our industry, the last fifty years have been astonishing. One thing I get to do to make a living is interview people and write histories about various aspects of the industry. I probably talked to several hundred people who've lived through the period from World War II to the present and working in the natural gas and the oil industries. And every time at the end of the interview, people will shake their head: "It's astonishing what I've seen in my life," they will say.

Remember, when the Council was founded, 1946 to advise the Department of Interior, the U.S. was largely self-sufficient in petroleum. The Middle East is a promise on the horizon, not really a major producer of oil. There are no cross-country pipelines to transmit gas from the gas-rich Gulf Coast to the gas-demanding Northeastern cities. In offshore development, deep water is 15 feet. You have to bear in mind, I've been involved in writing a history of the Gulf of Mexico -- 15 feet in 1947, the first out-of-sight-of-land platform; it's astonishing, the progress in technology that this industry has made over time.

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There's no OPEC; that comes in about 1960 and effectively in the early '70s. There's no EPA, although there are environmental laws, primarily at the state level. EPA comes in 1970. There's no DOE; that's 1977. This is all a fifty year history of an incredible postwar boom, a horrendous 1980s bust and adjustment in the industry. Many of you here have lived through that; many of you are coming on the end of that, and I think a whole lot of people that I meet in the industry either started in 1946 or started in the boom of the 1970s.

One thing that history can tell you quite often is how those connect, how this history connects up and where it might lead.

I had used Council reports in much of my research. Indeed, when Marshall called to see if I might be interested in conducting this history, I had two old NPC reports on offshore developments on my desk that I was using at the time. And I knew that when I looked at a Council report, I would find deeply detailed reports drawn from far down in the industry. That's been one of the great strengths.

I would find diversity of opinion, as an institution that has embraced broadly the views within the industry. I would find the reports presented -- I'll call it detached in a dispassionate tone; it's not lobbying, it's long term information, context; "here's trends in the industry." And I knew also that I would find, more than anyplace I could look as a historian and professional scholar, I would find information about the impact of public policy and trends in the industry in the marketplace. Then one of the great strengths of the Council has been to reach down deep in the industry and describe for others, and often to ourselves, how different events and how different public policies affect market forces. In that sense it is a unique source of information about the petroleum industry.

I want to just briefly tell you about this. The public -- we are editing the report now and it will be published and available for you to read; but when I look back at the history and look at the possible topics this morning, there are at least three areas that the Council is always been very important in; and let me talk very briefly about each of those for a moment.

That would be national security as it affects the petroleum industry; it would be the balance between energy policy and environmental policies; and it would be the place of domestic oil and now gas in the overall energy picture.

These issues are very much evident today; they've been evidence since 1946, and the Council has played a consistent historic, historically important role in helping the society understand these.

And I think the other thing, when you talk about detach and dispassionate, that is impressive to an outsider looking at these reports, is it is one place where you can expect people to hang up their hats of self-interest, and maybe corporate interest, and try to see a broader national interest; and I think that makes the reports most interesting over time, where you see the events, you see the reports, and more often than not the reports give you a handle on what's happening at a place in time in our history.

The national security is the easiest function. From its first breath, indeed before it was born, the

Council has taken a vital role in explaining the importance of the petroleum industry to national security.

As most of you no doubt understand and know, the Council was literally born from the World War II experience. The cooperative committee, a kind of shadow government, in effect during World War II, as had been the case in World War I, serious national crisis, the industry closed ranks with government in a cooperative endeavor to mobilize the industry for World War II.

And after the war ended, the Secretary of Interior, under Democrat Harry Truman, still understood that that advice was very important and that cooperation was precious and something that he didn't want to lose. So in 1946, the Council was founded to report to the Secretary of Interior, and emergency preparedness was a crucial theme of the day. This was emergency preparedness for the next shooting war; we had lived through two world wars, many people alive in 1946, and we assumed there was another one on the horizon. And we assumed that unlike the first two times, the Council would help us mobilize more quickly and more efficiently, with a cold war, with new technology of warfare, it became clear to everyone

that we weren't going to have the option to wait six months, to wait nine months to gear up for the next war, and that the Council was going to play a vital role in getting us ready when the next shooting war occurred, to do what was needed to be done.

This proved to be true in Korea, 1950-1953, the Council played a very significant role in the creation of something called the Petroleum Administration for Defense, which is the advisory committee that helps the industry deliver both guns and butter during the Korean conflict.

It was a different world then; these broad changes that we talked about, fifty years. There is an intense cold war, there's an intense fear, a real fear of nuclear war. And not just preparing for the next shooting war, but preparing for the next nuclear war, for the first nuclear war, because one of the crucial problems of the National Petroleum Council in the Fifties and Sixties.

I looked back at these reports, I've interviewed a man named Jim Winfree who retired from Humble in 1973 but had stayed active in the Council, a long career. And he helped put together preparedness packages for the industry. What would happen in the event of a nuclear

war? This is the ultimate emergency preparedness; we're not sure how bad the devastation, we're not sure what will happen after a nuclear war occurs, but we know that we will need oil and gas; and we asked the Council to tell us what might be done to get us ready for this worst case disaster.

Every time I read that report, I think of my own experience. I was a junior high school student in 1963 during the Cuban missile crisis, when this emergency preparedness was really at the top of everyone's list. To get ready for the nuclear attack on our petrochemical plants in Port Arthur and Beaumont, we would go out in the hallway and hold a book over our heads, squat down against the brick wall and look out the window at the largest petroleum refining complex, petrochemical complex in the world. And we had been assured that the Russians knew we were important and that we were high on the priority list for nuclear attack. So we were going to put the book over our head.

My dad was a fireman at the time, and in the emergency preparedness bulletins, I could imagine a section where Woodrow Pratt puts out the little minor

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fires that happen at Neches Butane Products in Port Neches; his son takes his book off his head and cleans up the glass and goes -- he shoots baskets in the gym. And the National Petroleum Council takes over and tells us how to deal with the disaster.

(Laughter)

But it's hard duty. It's hard duty. But I think the point here is that anytime there's been an issue of national security, the Council has been called on since World War II. And it's been called on in the interest of a very long term national interest here: what happens in the event of war? Right underneath the surface in the Council's history is the fact that when there have been emergencies in the 20th century, the industry has always stepped up and closed ranks and said, "For the duration, we will do what needs to be done for the nation."

In the 1970s we had a redefinition of national security with the OPEC price hike, the OPEN embargo; and I think one of the really interesting case studies in the Council's history occurs as we redefine national security to include economic vulnerability to cutoffs of imported oil.

Most of us were alive at that time, most of us remember the incredible confusion -- a price of democracy no doubt, the stops and starts as each new administration circled around this crisis. New issues with a Republican then a Democrat, then a Republican, then Watergate, all confusing what should be done.

When you look back at the 1970s and the response to that crisis, the one coherent policy from the '70s to the 1990s in the National Petroleum Council is just right at the heart of that issue, has been the Strategic Petroleum Reserve. Many of you involved in the studies, I believe. From the very first, more than any public policy in the history of the Council, the Council has been involved in the design, the operation, the potential uses of the Strategic Petroleum Reserve, the petroleum stored to use to respond to cutoffs of future embargoes.

Early '70s, the Council did the basic reports. Actually, during the embargo, the Council was already undertaking a report to tell the Secretary of Interior at that time what might be done in the event of a cutoff. And because the report was underway, the Secretary of

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Energy had some very timely advice about what to do when the cutoff became real.

1974 and '75, the Council did major studies which literally helped to design the Strategic Petroleum Reserve. The early 1980s, two major reports that helped define how it would be used, that it would be used with a market-like auction mechanism, that it would be used only in a severe emergency. And indeed, the Council design and the Council's efforts helped to define how we did use the reserve in the Persian Gulf War in the early '90s.

I think of all the debates that the Council has been involved, and the national security debate, and what must be new debates over the SPR, the Strategic Petroleum Reserve as times have changed and as conditions have changed, the Council has earned a seat at that debate, and through its reports, through its hard work, is a logical place to look to help us as a society decide what to do in the event of cutoffs, how to use the Reserve, and indeed the broader issue of what to do in event of any kind of national emergency.

The second big issue, and I think is very important to us today, is the balance between energy

policy and environmental policy. When you read the Council's reports on this from the 1971 report called Environmental Conservation, to the Future Issues report, you see a common thread of argument, several common themes developed much more systematically over the time from 1971 to 1995, but a common set of themes.

If I could summarize those, I would say stressing the need for balance, balance between energy and environmental policy, sustainable environmental policy, I would call that. Or maybe even efficient environmental policy. That's been a theme of these reports now for 26 years.

Second theme, take the cost as well as the benefits into account when making new environmental policy; and finally, a general theme that we see in all these reports: Telling the Department of Interior, and after 1977, the Secretary of Energy, about the long term problems with command-control regulation.

That is, what to do, how to do it, when to do it; and if you don't, the "or else" always; stiff fines. A strong voice from 1971 to the present; "we can do better" the voice says. "We will" the industry has said

again and again, "obey the laws that are passed, but couldn't we start to understand a little more fully how these laws impact the marketplace?" And "Couldn't we close ranks with business and government," often through these reports the argument would go, "and learn how to have the same level of environmental quality at a lower cost?" The same level of effort to clean up the environment without the command-control. The key words here always "flexibility, systems that allow us, the industry, to invent new technologies to lower the cost of environmental quality." That has been a constant theme.

Unfortunately in early Seventies -- inevitably I think in the early Seventies, those arguments were simply ignored. And I think those of you who were in the industry at the time, when you read the record and you read the Senate hearings in particular, the industry simply didn't have much voice in writing the laws that came into effect from 1969 to 1972, the early forms of command-control regulation.

It was the political mood at the time was that the industry had no right to talk, that it had had control of these issues for 30 or 40 years and hadn't done what

the society now demanded it to do. And in a sense, we passed laws that we can see almost as affirmative action for environmental quality; and for the next 26, 27 years, the Council has studied those laws and similar laws and tried to tell us how to do better.

By the early Eighties, major reports on environmental regulation came forth from the Council which argued again for balance, which argued that in the changed political mood of the early Reagan years maybe there was a time where we could start to reform regulation, to get an efficient regulatory system at the same time that we cared about the impact on energy, of environmental regulation.

But even then, there's a harsh lesson to be learned here, I think. Even then, command-control was acknowledged to have high cost, but it seemed to be working to many people; and I think the general response was "Let's leave that one alone." I think in a way the industry became a victim of its own success. Despite what we said where the impacts, the petroleum industry did absorb those costs and did move on and did continue to supply energy; and I think the body politic decided that

was good enough, and that regulatory reform would have to be put off for another day.

In the early 90s, several of the reports we've talked about this morning, very important reports; the industry, through the Council stopped the general argument of what should be done, and made some very effective arguments about two new command and control laws and how they should be implemented. This is the refining study we referred to in 1993, to try to help regulators understand what the impact of the Clean Air amendments were going to be on the refining industry, and help them do a little better in implementing that law; and the Oil Pollution Control Act study of the same year in which the Council made some very valuable contributions to the implementation of the law that was passed in the wake of the Exxon Valdez oil spill.

I think in this issue, the balance, the Council has a role to play in the future, and when you listen to the Secretary talk about global warming, those are the kind of very difficult issues where your voice will be essential -- I think the historian's perspective would

warn you today, however, not to expect to win very easily on those issues, particularly in the short term.

For 25, 27 years now, the Council has been making a logical argument, calling for balance, and we know that that definition of balance is defined by different people in different ways. Calling for more efficiency which I think is your great strength in these reports.

I would like to be able to say today that as a result of those reports, the command-control system has been changed, we've moved to a better, more efficient regulatory system. Obviously we have not. But I do see change through time, and I do see the value of making that argument with good, detailed data through time. And I do believe that perhaps at the 100th anniversary speech, no doubt Marshall will give that one -- it's going to be a big one. I'll nominate him now.

But at the 100th anniversary speech at least, I think we can be fairly assured that this argument will have carried the day, that the society will have seen that efficient regulation is the only sustainable regulation,

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and that energy and environment are the flip side of the same coin.

Certainly when we talk about that issue, the Council will deserve a strong voice.

The third set of issues and the last that I think flow right through the history into the new request by the Secretary of Energy: supply of domestic oil and the alternatives to it. This has been a long term issue. In fact, in the '40s and '50s, the Council is the only institution left in the industry that will debate, at least, domestic versus international oil. It's such a divisive issue within the industry that other institutions simply can't hold it in and contain it in one organization. The Council does.

The Council publishes one of the first long term reports on energy outlook. It's a mammoth report, the first giant report of the Council in 1972, called "U.S. Energy Outlook." Hundreds of people for two years work on a report to try to project. We know we're running out of cheap domestic oil, and the Council is one of the first agencies anywhere to try to project the implications, the trends and implications of that problem.

It's a very interesting report, it's a very controversial report, both then and now. Here's what the chairman of the Agenda Committee said as he started to acknowledge that the Council was going to undertake this report. He says:

Whatever report we make is going to be wrong;
either on the high side or the low side. It is
utterly ridiculous to say in this uncertain world
that we, the National Petroleum Council, can
attempt to say what is going to happen in the
year 2000.

This is in 1970.

I do not think we ought to undertake this study;
I think it is impossible, and that is all I have
to say.

(Laughter)

And then he takes a breath -- he takes a breath and he
says:

Now I suppose I will entertain a motion to
undertake this study.

(Laughter)

He knows the Council is hell-bent to do this study. The study causes quite a bit of problems for the industry. All these projections that anyone made in 1969 to 1972 come head on into the OPEC price shock, which shatters all kind of assumptions about supply and demand.

The study, even among members of the Council, when we're asked to update it four or five years later, several in the Agenda Committee said simply, "This was a horrible mistake; we would have been better off if this study had never been made."

As a historian reading the study now, after the boom has been followed by the bust, thirty years later as opposed to two years later, the report is most interesting. Actually some of the projections ring true, particularly of domestic supply. There's a lot of good work, computer analysis, early computer analysis, some of the first use of scenarios to try to predict the future.

And in retrospect, over the long term, the report does seem quite useful to read, particularly from a historian's perspective.

The Council has voiced strong opinions on alternatives to domestic oil; from conservation to

enhanced oil recovery to arctic oil, to unconventional gas. I think the one that matters most to us today is what has become the most readily available alternative to domestic oil through time, and that's domestic gas or world gas supplies.

I do think in the history of the Council, the gas industry was slighted, and it was slighted for very good reasons; it was regulated by the Federal Power Commission and later FERC, not directly to the DOI. It was a regulated industry, not a competitive one like the oil industry.

Once gas begins phased deregulation, it becomes more comfortable within the National Petroleum Council, and I do believe that the Secretary is correct to extend the 1992 Potential for U.S. Natural Gas Study, which does loom as one of the most significant studies in the Council's history. And I look around, many of you in the room were involved in that or know intimately of that study; this is a study that is a snapshot of what amounts to an emerging new industry, a competitive natural gas industry, with all kind of ramifications for all of energy.

It shows the direction of change; very important contribution. It tells the government the key issues to consider as this change is in process. It helps build consensus within the petroleum industry about what is happening and what might flow from that. And finally, it leads to a much stronger role within the Council for natural gas. All those very positive, all those shaping the institution that you live in today.

And I'm very happy to hear that that study will be extended, expanded, and will continue to get the wisdom of the Council on this, what amounts to a revolution in energy that might have started underneath our noses ten years ago with the deregulation of natural gas. And certainly, of all the institutions that should have a good voice at the table of what to do about natural gas, and what government policy should be, the Council has earned a very strong voice in that debate.

Let me close by telling you our evaluation of the major value of the Council through time. In practice, the Council has shaped some public policies clearly. I think the best example is the Strategic Petroleum Reserve. Reaching down in the industry and saying, "This is how a

good reserve could be organized. One that work, one that would fit into the peacetime, the nonemergency operation of our industry."

In other cases, the Council has shaped the implementation of laws once they were passed. I think the big example there, the Clean Air Amendments of 1990 and the Oil Pollution Act of 1990. Those are harsh laws; they're strict new requirement on the industry, but the law left some flexibility and the Council studies, again with the detail that only the Council can produce, helped educate regulators about how to use some of that flexibility in the law and the language of the law to make the laws marginally better.

At times -- I haven't talked about these -- but at times I think the Council studies have helped block bad public policy. But always these studies have provided a detached, useful context for debate on petroleum-related issues.

Again, the value of the Council comes right out of these reports, and if you are new to the Council, I would really recommend that you take some of these reports. Look at the gas study, look at the refining

study, even look back at the U.S. Energy Outlook of 1972, try to understand what has been done with the resources of the Council over time, and try to imagine what might be done.

But you'll see, if you read the studies, the same strengths evident in almost all of them: Ability to dig deep in the industry for detailed data on important issues, to present this to the government in a detached, dispassionate tone, to represent the voice of the marketplace; and in a political system where all too often that voice is muffled in the debates and not quite understood clearly what public policy might have, the ramifications it might have for the private sector.

These are strengths that you inherit as you go forward and do the new reports. These are areas of strength that if you'll look at the list this morning, these flow right out of these areas of strength, and that is a good thing.

I think that when we look back -- I've been involved in quite a few of these fiftieth anniversary celebrations, for the offshore industry and others lately. You think 50 years, you automatically think of 100. And

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when we look back at the 100th anniversary of the Council, the thing that's certain is that these reports will be there. The other thing that's certain is some of the issues we can't imagine today. But when we look back, we might be called the national energy council by then, as opposed to the National Petroleum Council. Those things can change, but I think the strength of the report will remain.

I would encourage you, when our report is published, to give it a look, particularly if you haven't lived through the history, and if you have questions, to find some of us, or find Marshall and John Guy, who between them have fifty years of experience or so at the Council.

I thank you for your attention.

[Applause]

CHAIRMAN FOSTER: Thank you, Joe. That was a very good review. And Joe will be around after the meeting if anybody has any questions or comments they want to pass on to Joe.

On a personal note, I would just say that the first encounter I had with National Petroleum Council data

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was that energy outlook study which Joe mentioned, and on the basis of some preliminary work in that study back in 1970 when I was running a planning department at Teneco, I projected that the price of oil would be \$5 a barrel three years from then. And I was labeled such a wild-eyed optimist that I was promoted to exploration manager. And it forever changed my life.

(Laughter)

JOE B. FOSTER

Report of Cochairs' Coordinating Committee

The next part of our agenda has to do with some administrative matters, committee reports; and I'll give the report for the Cochairs' Coordinating Committee.

This summer, many of you who are members or were members at that time received a report from Dennis Hendrics outlining the results of our first Cochairs' Committee meeting with Secretary Pena. That meeting was held on April 14th, and it began a process through which the Council members made suggestions to the Secretary and his staff about potential subjects for study by the Council, and of course that was complemented by the Department's own views about what was required.

And the process continued yesterday as the Cochairs' Committee met once again to consider where we go from here with respect to specific studies. Joe held up this piece of paper which is at each of your places; it's an excellent document describing some of the studies that might or might not be appropriate for this Council to undertake. It was prepared by Nancy Johnson in DOE, and

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Sandra Waisley, and it's a very good piece of work and has been very helpful to us.

If you read that, you'll see that there were several topics that were considered; natural gas study, an updated natural gas study being one, and that seemed to be the one which has the greatest priority at the present time. Also, the refining update that was mentioned earlier; offshore and onshore access, federal lands is mentioned, and global competitiveness.

All of these are worthy issues, the result of the discussion yesterday was that Bill Carroll, the chairman of the Agenda Committee, would work with DOE members to sharpen or refine the description of the natural gas update so that it took full advantage of the work that's already been done and could efficiently answer the questions that needed to be answered from the Department's standpoint.

And we expect, after that work being done, very shortly to receive a formal request from the Secretary to undertake such a study. And we will be asking member companies of the National Petroleum Council to participate in that study, and it will involve all segments of the

industry just as the natural gas study of 1992 did; and I think one of the great benefits of that study was to have the transportation, the distribution, marketing, exploration, production segments all working together to produce a document.

Some of you may ask, why update that study so soon after it was completed. Well, I think the primary answers that have been discussed already, but that is that the speed with which electricity deregulation is taking place, the potential increased gas demand as a result of some of the climate change initiatives may have -- and we don't know that they have -- it may have altered the demand projections that were envisioned in 1992; for example, even for this year the gas demand is running about a trillion cubic feet a year higher than was projected in that study which began being put together in 1990.

So it's certainly a legitimate area of study, to make sure that we do have the capability to deliver the gas at the time it's needed.

The refining study will undoubtedly get a lot of attention. Some more work needs to be done to sharpen

that in to define a study in a way that provides the right answers in the most efficient manner.

I think offshore and onshore access both will be issues that are almost implicit in the natural gas study; that you can't really address issues of gas supply without addressing those issues to the extent they need to be addressed in that study.

The global climate change study which is mentioned here is certainly something of great interest, but given the Council's capabilities and resources, these others, in our judgment and I think the judgment of the whole Cochair Committee and the Agenda Committee, that it would come behind those in terms of priority.

And then there are some mechanisms with which some informal meetings can be held within the Cochairs' Committee to address this global competitiveness to see, to the extent that could or should be an issue that would be considered, and we will use those informal methods to do a little bit more work on that.

So that is the result of the Cochair Committee meetings that we've had to date; and I would ask if anyone has any questions about that at this point.

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[No response.]

All right. The next, Vic Beghini, who is the
Chairman of the Finance Committee, will give his report.

Vic.

VICTOR G, BEGHINI, Chair

Report of the Finance Committee

MR. BEGHINI: Thank you, Mr. Chairman.

The Finance Committee met this morning to review the financial status of the Council. Representatives of Ernst & Young, our independent outside auditors were at the meeting to review with us their audit report for calendar year 1996.

Based on this review, I am pleased to report to you that Ernst & Young gave us a clean report; that our accounting procedures and controls received high marks, and that the financial condition of the Council is very strong.

We also reviewed calendar year 1997 expenditures and receipts to date. On the expenditure side, we're running below our projections, so we'll end the year with a sizeable budget surplus. The news on the receipt side has also been good, but as usual could be better. To date we have received 95 percent of the total requested; however, there are a few members that have not responded. If one of you in this room happen to be one of those, the committee would encourage you to reconsider.

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We then discussed a proposed budget for calendar year 1998, and recommend that you approve a budget in the amount of \$3.632 million. This will provide funds to complete the Product Supply Study reported on earlier, and to undertake a review of the studies discussed by Secretary Pena.

Next we looked at member contributions, and in keeping with the new chairman's more benign government and less tax-and-spend, we had the very strong contingency fund and the finance committee recommends that you improve reducing have had member contributions by 10 percent for calendar year 1998 which, when combined with interest and publication income should contribute approximately \$2.6 million towards the 1998 budget, and that any additional required funds be taken from contingency fund.

Finally, we recommend that Ernst & Young be reappointed as our independent auditors for 1998.

Thank you, Mr. Chairman, this completes my report, and I move that it be adopted by the Council. And I'd be happy to answer any questions.

CHAIRMAN FOSTER: Are there questions?

[No response.]

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CHAIRMAN FOSTER: Do I hear a second to the motion?

VOICE: Second.

CHAIRMAN FOSTER: Okay, thank you, Vic.

We have a motion to adopt the report of the Finance Committee, and a second. Any discussion?

[No response.]

CHAIRMAN FOSTER: Those in favor of the motion indicate by saying aye.

[Chorus of ayes.]

CHAIRMAN FOSTER: Opposed, no.

The motion carries.

Best way to get a budget motion approved is to cut the dues, right? (Laughter)

The Nominating Committee report comes from Collis Chandler, who chairs our Nominating Committee, and has chaired it for many years, and takes his duties very seriously and does an excellent job with this committee; and I'd ask him to give you his report now.

COLLIS P. CHANDLER, JR.

Report of the Nominating Committee

MR. CHANDLER: Thank you, Joe.

The National Petroleum Council's Nominating Committee has agreed upon its recommendation for NPC officers for the chairs and the members of the Appointment and Agenda committees, as well as five at-large members of the NPC Cochairs' Coordinating Committee.

On behalf of the committee, I am pleased to offer the following nominations:

NPC Chair: Joe Foster.

NPC Vice Chair: Bill Carroll.

For the Agenda Committee, we recommend the following as members: Bob Allison, Vic, Beghini, Dick Cheney, Ken Derr, Dick Farman, Larry Fuller, Bob Friday, Ray Hunt, John Miller, Larry Nichols, with Wayne Allen serving as the chair.

For the Appointment Committee, we recommend the following as members:

George Alcorn, Peter Bijur, Mike Bowlin, Bob Campbell, George Davidson, Bobbie Parker, Lee Raymond, Lou Ward, Irene Wischer, with Bob Palmer serving as chair.

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In addition, we recommend the following as at-large members of the Cochairs' Coordinating Committee:

Truman Arnold, Paul Chellgren, Ron Haddock, Lou Noto, and Rick Richard.

Joe, this completes the report of the Nominating Committee; and on its behalf, I move that the above slate be elected until the next organizational meeting of the Council.

Thank you.

CHAIRMAN FOSTER: Thank you, Collis.

Is there a second to that motion?

VOICE: Second.

CHAIRMAN FOSTER: All right, those in favor indicate by saying aye.

[Chorus of ayes.]

CHAIRMAN FOSTER: Opposed, no?

The motion carries.

I am honored to serve as your Chair, and look forward to doing that for another year. I think we've got a good slate of officers and a good group of committee members, and I think we're fully equipped to carry out the mission of this organization.

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We are coming to close of the meeting. I would ask if any member has any comments or any questions or any issues they want to raise at this time.

[No response.]

CHAIRMAN FOSTER: We appreciate very much the attendance of Deputy Secretary Moler and Assistant Secretary Godley.

Do either of you have any comments or issues?

SECRETARY GODLEY: Briefly, I saw the expression on many of your faces as Professor Pratt was talking, and I think I shared the same feeling; and that was, I'm proud to have been associated with the oil and gas industry for the 17 years I've been here. And while, by my calculations, to make it fifty I'll be 82 -- anyway, if that happens, if I'm here that long, I'd look forward to that as well.

What I really want to do is also say that I've been proud to serve in the federal government with some very effective leaders, career leaders, career professionals in the federal government, and I'd like to recognize them here today.

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Just moving from right to left, John Shages, who's a manager on our Strategic Petroleum Reserves. John, if you'll stand.

Nancy Johnson, who prepared most of the materials today and helped us prepare for this meeting.

Sandra Waisley was here. Are you still here, Sandra? Thank you again for your help. You're leading the oil and gas technology program.

Margie Biggerstaff is here as well; she works in support of this Council for us.

And I saw Bill Hochheiser -- are you still here, Bill? All working in our program as careerists. These are professionals, they're engineers and geologists and economists who support the work of our Department.

Thank you.

[Applause]

CHAIRMAN FOSTER: Thank you, Patricia. We do have a good group to work with in the DOE, and certainly the opportunity is there for this organization to make some real contributions, and we appreciate that.

There being no further business, the meeting stands adjourned, and thank you for coming.

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[At 10:50 a.m., the meeting adjourned.]

